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C O N F I D E N T I A L SECTION 01 OF 04 BAKU 000079

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SUBJECT: AZERBAIJAN UPBEAT ON TURKMAN RELATIONS AFTER
INTERGOVERNMENTAL MEETING

Classified By: Ambassador Anne E. Derse (reasons 1.4 b,d)

11. (C) SUMMARY: In conversations with the Ambassador, GOAJ officials were highly positive about the January 17 GOAJ-GOTX Intergovernmental Commission meeting and the bright prospects they now see to accelerate the improvement in relations with Turkmenistan. Ascribing improved relations largely to the personal relationship between the two Presidents, the GOAJ Deputy Foreign Minister and Deputy Prime Minister involved in this Intergovernmental Commission meeting said that improved bilateral relations didn't depend upon resolving delimitation - the two sides agreed the issues are on separate tracks. They expected delimitation to be solved regardless because it is "in each country's interest." They were buoyed by resolving the issue of GOAJ's debt to the GOTX, which they said was an example of what could be achieved when each side was ready to negotiate in good faith. Each country's President has invited the other for a Head of State visit (with each accepting the other's invitation), although dates have not yet been set. According to the GOAJ, the GOTX Embassy in Baku will be open before February's end. GOAJ interlocutors described GOTX President Berdimukhamedov as "pragmatic" and as very interested in opening up his country to, and pursuing a relationship with, the West. For its part, Azerbaijan continues to eagerly seek enhanced relations with Turkmenistan and the transit of GOTX hydrocarbons through its territory, as it correctly assumes this will enhance Azerbaijan's strategic importance to the West. END SUMMARY.

12. (C) On January 17 in Ashgabat, Turkmenistan, representatives of the Azerbaijan and Turkmenistan governments held their first meeting of a previously established Intergovernmental Commission (IGC), co-chaired by GOAJ Deputy Prime Minister Yagub Ayybuov and GOTX Deputy Head of the Cabinet of Ministers Hydyr Saparlyyyew. On January 24 and 25, Ambassador Derse met with Deputy Foreign Minister Khalaf Khalafov and Deputy Prime Minister Yagub Ayyubov to discuss the state of bilateral relations after this meeting.

DFM: No Problems, just Unresolved Issues

13. (C) Deputy Foreign Minister Khalafov said that the GOAJ had been unsure as to the prospects of improved bilateral relations after Turkmanbashi's death. However, largely due to the dialogue established between the two countries' presidents, bilateral relations have slowly improved and have now reached a turning point. He was very upbeat about the future of GOAJ-GOTX relations. The various meetings between GOAJ and GOTX officials, to include the Presidents'

discussions at Tehran and Saint Petersburg, and most recently the inaugural meeting of the bilateral commission, have moved the relationship to a "different level."

14. (C) The January 17 IGC had discussed a wide number of economic, trade, humanitarian and cultural issues, in addition to regional issues and discussions on changing financial investment policies. Khalafov said that GOTX wanted to assume a greater regional role, and to take part in "Caspian development projects." Khalafov said the only "negative issue" had been the GOAJ debt to GOTX, which the two sides had resolved due to GOAJ willingness to compromise.

15. (C) On the nature of the new GOTX President, Khalafov said that he has met with GOTX President Berdimukhamedov five times, either individually or as part of a visiting delegation. He described Berdimukhamedov as "slow but consistent" in pursuing the path of improved bilateral relations with Azerbaijan. He thought Berdimukhamedov was seeking to "open up Turkmenistan to the world" and "open to the West." Khalafov said that he was seeking to expand relations with the West for reasons of geopolitical and economic balance. When asked if Berdimukhamedov was afraid of Russia, Khalafov asked in a joking tone, "who isn't?"

16. (C) Khalafov said that the GOTX had selected an Ambassador for its Embassy in Baku, but "it wasn't official yet," although agreement has been requested. He confidently predicted the GOTX Embassy in Baku would be open "within one month." He said that each of the two countries Presidents had invited the other for an official state visit (Berdimukhamedov extended his invitation during the January 17th IGC meeting), although specific dates had not yet been discussed.

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17. (C) The Ambassador asked if there were progress on the issue of a Trans-Caspian fiber-optic cable, to which Khalafov said that the GOTX "had not been prepared" on this issue. However the GOTX was likely to send representation to the Baku telecommunications conference. In this vein, he thought that the GOTX would be "more active in all activities from now on," to include in its energy sector.

Delimitation

18. (C) Khalafov said that improved bilateral relations and delimitation were separate issues and not linked, and that improved bilateral relations were not dependent upon resolving delimitation. Delimitation was "not a problem, but rather an unresolved issue." He confirmed that the GOAJ has previously told GOTX that ACG is off the table,⁸ i.e. it was not willing to discuss GOTX claims to part or all of the ACG offshore field.

19. (C) Asked what the US could do to help the two sides reach agreement on delimitation, Khalafov said the USG could be of most help by helping to persuade GOTX to drop its claims on ACG, which were political and "without any legal basis." In Khalafov's opinion, Berdimukhamedov is not (and should not be) worried about losing face, should he back off the official position of the Turkmenbashi position re GOTX claims to ACG. The next meeting of the bilateral Working Group on delimitation would be February 6-7 in Baku.

20. (C) Khalafov said that although both sides accepted the Median Line principle, the main problem was still one of baselines, and whether and to what extent to factor in the geography of Absheron peninsula and various islands in these calculations. The GOTX "does not want to accept Absheron peninsula as part of Azerbaijan." He believed a median line solution might be possible whereby Zhiloy (Cilov) Island was Azerbaijan's and Ogorjinsky (Ogurchinskiy) island was Turkmenistan's. However, Khalafov said that the GOTX seemed

to be in search of a methodology that would allow it to maximize its territorial claims, whereas the GOAJ thought that "international practice should dictate."

¶11. (C) On the offshore Serdar-Kapaz field, Khalafov said that according to GOAJ calculations the Median Line goes through this field. Ambassador Derse asked if the issue of joint development of this field had come up during the IGC. Khalafov said that field development issues had not been broached, but that during the next round of talks in Baku the GOAJ proposal of joint GOTX-GOAJ exploitation of this field would be discussed. He said he thought delimitation would be solved, since "it was in both countries' interest."

¶12. (C) Although improved bilateral relations were not dependent on solving delimitation, Khalafov said that he had told the GOTX FM that solving delimitation would help Turkmenistan, and that Azerbaijan stood ready to help the GOTX in reaching out to the West, to include by providing transit. He said he has tried to explain to the GOTX that the West could be a significant investor in Turkmenistan, but that first the GOTX must create conditions suitable for foreign investment.

¶13. (C) Khalafov said that next steps in the relationship would include signing the agreement on debt repayment and opening the GOTX Embassy in Baku. He said there were plans also for the GOTX FM to visit Baku, to reciprocate GOAJ FM Mammadyarov's earlier visit to Ashgabat.

DPM Ayyubov: Similarly Upbeat

¶14. (C) In his meeting with the Ambassador, DPM Ayyubov echoed many of the points previously made by DFM Khalafov, and was similarly upbeat on the recently concluded intergovernmental commission meeting, and on the possibility of the two countries reaching an agreement on delimitation, and on improving bilateral relations with Turkmenistan. He underscored the importance of high-level USG engagement now to take advantage of Berdimukhamedov's now open desire for cooperation with Azerbaijan and the West.

¶15. (C) Ayyubov said that many countries did not want and in fact are working against a GOTX-GOAJ rapprochement, with

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Berdimukhamedov saying as much to him in one of their meetings. However, Ayyubov said the personal relationship between the two Presidents had been the driving force behind the improved relations in general and the resolution of the bilateral debt issue in particular (he said the debt will be fully repaid by September 1, 2008). Berdimukhamedov told Ayyubov that he was President Aliyev's "friend and brother," that he felt Aliyev was someone with whom he could work, and that "there could be no unresolved issues" between the two. Ayyubov said that Berdimukhamedov had extended his personal invitation to President Aliyev to visit Ashgabat on an official visit, saying that the GOTX was ready to receive him "in accordance with the highest standards." For his part, Ayyubov reiterated the personal invitation from President Aliyev, which Berdimukhamedov now accepted.

¶16. (C) Ayyubov confirmed that an Ambassador had been selected for the soon to be opened GOTX Embassy in Baku, with the GOAJ MFA already having received the request for agreement. Ayyubov also said that in his discussions with the GOTX Deputy Prime Minister he had underscored that Turkmenistan's independence depends on its diversifying its energy exports.

¶17. (C) Ayyubov was similarly optimistic about the possibility of reaching an agreement on Caspian delimitation, based on the close relationship between the two Presidents. Both sides would compromise, much as they did in solving the debt issue. Ayyubov quoted Berdimukhamedov as telling him

that "any issue is negotiable and can be solved."

¶18. (C) Recalling Khalafov's earlier request that the USG resume the bilateral dialogue and assistance to the GOAJ on delimitation that it had offered in the 1990's, the Ambassador said that Ambassador Mann, now filling the newly-created position of Eurasian Energy Coordinator, would be coming to Baku in February and was prepared to resume the discussion. The Ambassador said Mann would welcome the opportunity to get an in depth briefing on the status of the discussions and review relevant documents. Khalafov agreed.

Need for High-Level USG Action

¶19. (C) Ayyubov pointed out that Russian President Putin was personally and actively advancing Russian energy policy in his many travels abroad, and said that the USG urgently needed to increase its "high-level special attention" on Caspian energy issues. While he understood that President Bush couldn't do this, he said he should select someone who clearly represented him, and who could make this issue his exclusive focus. He highly praised DAS Bryza's work, but said "he had too big a plate" to focus on these regional energy issues. Ayyubov said now was the time for senior-level USG engagement on Caspian energy issues, so that the GOTX can believe that it commands "high-level USG interest." While "Azerbaijan was not in a position to influence Turkmenistan" other than by pointing out that it had the infrastructure to allow the GOTX to export its energy westwards through Azerbaijan, Ayyubov believed that the USG could influence Turkmenistan to increase its exposure and transit of gas to the West.

¶20. (C) In terms of GOTX participation in a regional energy conference, possibly hosted by the IEA, Ayyubov said that the GOTX had bruited such a possibility, but would prefer that such a conference appear an Azerbaijan initiative. Ashgabat doesn't "want to be out front" on this issue, and would prefer its presence portrayed at such a conference as merely "accepting an invitation." Ayyubov said that the GOTX DPM had told him that the GOTX President and PM had tasked him to arrange for a conference bringing Azerbaijan and Turkmenistan together, and Ayyubov said "he owed the GOTX DPM an answer on this issue."

¶21. (C) COMMENT: It was clear from both GOAJ officials' comments, and separately from FM Mammadyarov (septel), that an important turning point has been reached in GOAJ-GOTX relations. The GOAJ, including President Aliyev, have been frustrated for some months with what they perceived to be Berdimukhamedov's slow response to their early overtures to warmer relations. The GOAJ clearly now feels that Berdimukhamedov is ready for more active engagement, and that

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the time is right for the USG to encourage him to take concrete next steps on relations with the West. Recalling that the GOAJ had advised us in the early days after Turkmenbashi's death that it would take time for Turkmenistan to be ready to engage and that we needed to move slowly and wait for the right moment, this assessment is all the more striking. END COMMENT.
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